



*United States Attorney
Southern District of New York*

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U.S. CHARGES CHAIRMAN AND CEO OF REFCO, INC.
WITH SECURITIES FRAUD

MICHAEL J. GARCIA, the United States Attorney for the Southern District of New York, announced today that PHILLIP R. BENNETT, the Chief Executive and Chairman of Refco, Inc. has been arrested and charged in a criminal Complaint with having defrauded investors in the initial public offering of securities in Refco, Inc., by hiding that hundreds of millions of dollars owed to Refco was in fact owed by a company BENNETT himself controlled.

Refco is a large financial services company that offers securities and commodities brokerage services to the public. Its principal place of business is in Manhattan, and its stock is listed on the New York Stock Exchange. Refco conducted an initial public offering of its stock on August 16, 2005, raising approximately \$583 million from the public.

On October 10, 2005, Refco issued a press release announcing, in substance, that it had discovered that it was owed a debt of approximately \$430 million by an entity controlled by BENNETT. Following release of this information, the market price of Refco stock plummeted from approximately \$28.56 per share, its closing price on Friday, October 7, 2005, to \$13.85, its closing price on October 11, 2005, resulting in a loss of well more than \$1 billion in market capitalization.

The Complaint alleges that from as early as 2004 through October 2005, BENNETT hid from investors in the initial public offering the existence of hundreds of millions of dollars of related party transactions between Refco and a company controlled by BENNETT. This includes, as charged in the Complaint, by causing Refco to file a false and fraudulent S-1 registration statement with the Securities and Exchange Commission.

According to the Complaint, when Refco carried out its

initial public offering, it filed a registration statement with the United States Securities and Exchange Commission. That registration statement provided potential investors with information about, among other things, Refco's business operations, management, and the planned use of the proceeds of the offering. The registration statement also contained audited financial statements of the company.

Pursuant to regulations, Refco was required to disclose on this registration statement all transactions over \$60,000 by Refco within the last fiscal year in which any executive officer of Refco had a material interest, and all debts over \$60,000 by any executive officer of Refco to Refco. The purpose of these regulations is to disclose potential conflicts of interest, among other things, that may be material to investors in evaluating the company's stock.

According to the Complaint, Refco filed its registration statement in August 2005. BENNETT signed it. The registration statement allegedly disclosed nothing about the hundreds of millions of dollars of related-party transactions between BENNETT's company and Refco.

BENNETT is charged with one count of securities fraud. If convicted of the charges in the Complaint, BENNETT faces a maximum of 20 years in prison and a fine of \$5,000,000 or twice the gross gain or loss caused by his crimes. BENNETT was arrested last night and is scheduled to be presented this afternoon before Magistrate Judge DOUGLAS F. EATON.

BENNETT, 57, resides in Gladstone, New Jersey.

Mr. GARCIA praised the efforts of the United States Postal Inspection Service and the criminal investigators of the United States Attorney's Office, and thanked the Securities and Exchange Commission and the Commodity Futures Trading Commission for their assistance in the investigation of this case.

Mr. GARCIA stated, "Those who hold and exercise the power to defraud the public and to unfairly manipulate the marketplace will swiftly be brought to justice." Mr. GARCIA also stated that the investigation is continuing.

The charges contained in the Complaint are merely accusations, and the defendant is presumed innocent unless and until proven guilty.

Assistant United States Attorneys DAVID ESSEKS and MARCIA ISAACSON are in charge of the prosecution.